

Middle-class concerned about closing the deficit

03:39 PM EDT on Sunday, May 11, 2008

By Steve Peoples
Journal State House Bureau

CRANSTON — She glanced at the newspaper, scanning the latest headline warning of mounting deficits and looming budget cuts.

Terri Bullett is not among the key decision makers faced with closing Rhode Island's massive budget deficit. She is a school nurse. A mother of two middle-school children. A weekend regular at the Little Falls Bakery and Café.

But she's certain that the effect of the state's fiscal dilemma will extend far beyond Smith Hill.

"I feel like everything's going to land on the backs of the middle class," she said while sharing bagels and coffee with friends yesterday in the bustling Pawtuxet Village cafe.

State lawmakers say that everyone should be worried about the decisions they will make over the next two months. The outcome will affect property taxes, all government services, retirement benefits for thousands of state workers and teachers, and health care for thousands more low-income Rhode Islanders.

"Obviously, it's going to be a challenge," the governor's budget officer, Rosemary Booth Gallogly, said Friday after releasing the latest bad news.

Governor Carcieri earlier in the year proposed a host of budget cuts to close what was thought to be a \$384-million deficit for the fiscal year that begins in July. Lawmakers learned Friday afternoon that the shortfall has grown by between \$50 million and \$55 million because of the weak state economy.

There are no easy fixes. And each side is digging in for what will be the ugliest budget battle since the credit union crisis of the early 1990s.

The banks will stay open this time. And the Republican governor, backed largely by the General Assembly Democratic leadership, has vowed not to raise Rhode Island's income tax, as was done in 1991 to help close the last deficit of this magnitude.

But politically active social-service advocates and a host of rank-and-file lawmakers support a mix of budget cuts and revenue increases — including new fees and targeted tax increases on high earners.

"Do I think we will be able to cut our way out of this? No. I think you are going to need additional revenue somewhere," said Sen. Paul E. Moura, the outspoken East Providence

Democrat. “The last thing I want to do is raise anyone’s taxes anywhere. But I want to be realistic in our discussions.”

Moura voted against the Assembly’s recent move to close a current-year deficit of \$150 million. His opposition centered on a provision that scooped \$12.5 million from cities and towns in the midst of the fiscal year. That cut makes it harder for municipalities to pay for local services and education at existing levels without raising property taxes, their primary source of revenue.

Carcieri and the House leadership largely avoid discussion of the property tax implications of reduced state aid to cities and towns, something likely to be an election issue in the November races for every Assembly seat. Their focus is avoiding increasing state taxes, such as income and sales taxes.

“This is not a matter of rich versus poor versus middle class. There’s a lot of suffering going on right now,” said House Finance Committee chairman Steven M. Costantino, D-Providence. “I’m not going to add a tax increase. I think it’s an awful message. The poor are suffering; the middle class is suffering. To go to a tax increase at this point without trying to find as many alternatives as possible to make up this deficit, I think is irresponsible.”

Bullett, meanwhile, makes no distinction between the state’s broad-based taxes and her local property taxes. “There’s a huge trickle down effect with all of these cuts,” she says.

Bullett fears, for example, that the cuts to local aid will affect school arts and music programs for her 12- and 14-year-old children.

“Those are the first jobs that will be cut. Maybe it’s not the nuts and bolts of reading and writing, but they broaden the child, and that is the goal of education,” she says. “While it looks good on paper, [the cuts are] going to affect the people who can’t afford to send their children to private school.”

RHODE ISLAND HAS never faced a budget deficit of this size. The hole of the early 1990s is comparable only in terms of the percentage of state spending.

If government leaders focus solely on cutting spending to close the shortfall — the plan largely endorsed by the governor — they will need to reduce all expenditures by more than 12 percent.

That’s more than the combined budgets of the state police, court system, prison system and the attorney general’s office. Seen a different way, the hole is larger than all state spending on social programs for low-income residents: welfare, health care, child care and federally funded food stamps.

“We’re not going to be able to cut spending by 12 percent in the state without severe impact on the economy,” said Ellen Frank, the chief economist for the Poverty Institute at

Rhode Island College. “We realize that there are going to be a lot of cuts made, but hope that lawmakers over the next six weeks will see that there are things we can afford to cut, and things we cannot afford to cut.”

Carcieri has already proposed, for example, cutting subsidized health care for 7,400 adults in the coming year and eliminating all welfare benefits for families after two years, instead of five.

Frank and several progressive lawmakers have pushed for legislative leaders to consider rolling back tax cuts recently aimed at stimulating the economy by reducing the tax burden on high earners. The phaseout of the long-term capital gains tax and the phase-in of an alternative flat tax will cost the state tens of millions of dollars in the coming fiscal year, although their impact may have been overstated, according to state tax administrator David M. Sullivan.

Analysts previously believed the state could generate nearly \$40 million by increasing the capital gains tax from 1.67 percent to 5 percent. But it appears that the figure may be closer to \$20 million, according to John Simmons, head of the Rhode Island Public Expenditure Council.

“When you argue between cutting expenses or raising taxes, some will say on the short term it may be better to raise taxes,” Simmons said. “But that’s the issue. If you’re only looking at the short term, what happens to the long-term impact on Rhode Island? Why are we early into the stages of a recession well before other states?”

Constant debates about taxes and even modest tax increases aimed at high earners affect residents’ decisions about staying or investing in Rhode Island, according to Simmons. “One of the most important things about the tax structure is predictability,” he said.

Senate Majority Leader M. Teresa Paiva Weed, however, said she’s willing to consider delaying tax cuts aimed at the wealthy if necessary.

“We need to evaluate the fiscal impact of the new [tax] cuts that are in the governor’s budget with the proposed cuts to human services,” she said.

Back at the café, Bullett ponders her future in Rhode Island.

She isn’t directly affected by the capital gains or flat taxes. But she knows the state budget debate will put pressure on her local schools, her retirement benefits down the road, and her property tax bills.

“I’m looking at moving to Massachusetts if I can,” she said. “I live in Edgewood. I love my home. But I feel like [taxes are] going to go up and up and up.”